Discussion Statement No. 5 July 1934
Material suggested for use in developing discussion of problems of agricultural adjustment.

United States Department of Agriculture
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CORN BELT AGRICULTURE AND PLANNING

By
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(Address given at Howard County Farm Bureau Picnic, Crisco, Iowa, June 27.)

During the past year I have been in Washington, I have wondered many times how the things being done by the Administration looked to you out here in the country. I have wished many times we could occasionally switch positions in order that we might better understand each other and the real nature of the problems we face. I have often wished that people in all walks of life might temporarily exchange jobs and locations with their fellow men to the end that they might further develop a close kinship of interest.

The world we live in today is extremely dynamic and complex. Things change so rapidly that we are constantly up against all sorts of difficult problems of adjustment. There is constant need for adjustment of attitudes as well as fundamental revision in our economic activity. When changes are as rapid as they have been during the past year, it becomes exceedingly difficult to keep one's perspective on a real and not an illusionary basis. It is hard to keep track of what is going on. It is not easy to perceive the whole object and at the same time watch the changing parts.

I am sure that most of us here, if we are honest with ourselves, will admit being somewhat confused by all of the emergency legislation which came into being during the life of the Seventy-third Congress, now adjourned. It is job enough to keep posted on the farm programs alone. Yet unless we do appreciate in a general way the main objectives of the whole New Deal, it may be hard to orient one's understanding of the farm program. On the other hand, without a thorough understanding of the farm program, it is nigh impossible to grasp the meaning of the New Deal effort.

I suppose no aspect of corn-hog production adjustment has bothered people, both on the farm and in cities, more than the apparent contradiction of purpose between efforts to restore employment and aid the needy on the one hand and the

efforts of the Agricultural Adjustment Administration to restore a balance between supply and demand for farm commodities on the opposite hand. At the Corn-Hog Section in Washington, we have received a number of letters from folks who say, "How can you have the heart to pay farmers to cut production when there are millions of unemployed in this country? So long as there is one single unemployed man, there will be no over-production." I suppose a good many farm people are inclined to feel this same way, even though they may have signed a corn-hog contract this year.

It is testimony of the inherent good neighborliness of people that this attitude toward the adjustment effort should persist. Albeit, however, this attitude does not admit the real facts in our agricultural supply situation and it alone is not the thing that will help the unemployed out of their difficulty.

It is estimated by the Bureau of Agricultural Economics, that the American people in 1933 ate an average of 70.2 pounds of pork per capita and 14.7 pounds of lard. This is exactly the same per capita consumption of pork and only three-tenths of a pound less lard than was consumed on the average during the comparatively prosperous 1926-29 period. In total poundage, we have eaten more pork and lard annually here in the United States since the depression set in than we have ever eaten before in our history.

It may be hard to understand how this could have been the case unless one happens to know something about the workings of the law of supply and demand with respect to hog products. The first fact to get firmly fixed in mind is that all hog products offered for sale are sold at some price and that all hogs brought to market are purchased at some price. Hogs, even before they are butchered, are a relatively perishable product. There is a certain time limit within which they must be marketed, butchered, and the products therefrom sold. Even cured products cannot be kept stored for any great length of time. Processors always have stocks on hand, but products at one end of the warehouse are constantly being removed as other products are entering from the curing-room.

Because hogs do move readily into the channels of trade, regardless of supply offered, a good many people have fallen into the error of thinking that the supply consumed actually represents the willful, consumptive requirements of the country. On the basis of such an assumption, of course, one could protest against any reduction in production, no matter how many hogs were being raised. The saturation point, under such an assumption, would be that point at which all the people of the United States were living exclusively on pork alone and when the production of hogs in the country exceeded even that extreme level. When unemployment also comes into the picture, it is easy to lose completely one sense of proportion.

Now the facts are that on account of large available supplies, we have been eating in this country during the depression fourteen percent more pork and over twenty-two percent more lard per capita than we did in the comparatively stable pre-war period from 1910 to 1914. Yet, if memory is not to be mistrusted,

both the consumer's table and the hog producer were faring pretty well back in the pre-war period. And the reduction in production of corn and hogs, which is being obtained this year under the 1934 contract, will not carry us below this pre-war figure or below any other reasonable standard for food production.

I suspect one reason for apprehension among middlewestern people, as regards this matter of production adjustment, is their remoteness from the true proportions of our loss in export trade since the war. Unless one does fully appreciate the vast size of this loss, it is natural to conclude that for every pound reduction in our hog crop there will be a corresponding drop below the basic food requirements of consumers, rather than primarily offsetting the export loss to prevent overloading the domestic market.

I think I appreciate the difficulty of visualizing world trade. Only the immediate things around us ever seem real. Things over the hill, so to speak, are visionary. In spite of daily newspapers and other communicative devices for keeping the pictures in our heads up to date, it still is hard to follow realistically the changes in things far away. One is able to note changes near at hand with his own eyes and ears. He can watch the action of erosion on his farm and promptly take steps to curb it, but a drop in exports, such as we have seen since 1923, equivalent to more hogs than the average Iowa farmer would raise in a hundred thousand years, cannot be seen from the seat of the plow. I think this difference in our abilities to see the visible and invisible accounts in part for the slow realization of the important changes in world trade which have created the serious current problem of adjustment.

When I was a boy in Illinois, I helped to haul hogs to town. To me, they were just sold. I had little knowledge of what became of them. I did not know that all the lard from about every third or fourth hog and all the pork from about every tenth hog would be eaten by foreign peoples. I did not know that the price these people would pay for hog products or the volume they took had anything to do with what my father got for the hogs we took to our little stockyard. It was not until many years later that I had learned how really important it is to know what does become of the hogs we offer for sale and whether or not there is a strong market for them at the point of ultimate consumption.

Since the World War, America's exports of hog products have been on the down-grade. The reasons are many and varied, but the change came about principally because European farming revived normally after the war and because there was a rather strong tendency on the part of indebted nations to live at home as much as possible. Between 1923 and 1933, the United States annual exports of hog products dropped by an equivalent of eight million hogs. This number, representing our export loss, is equal to more than two-thirds of the entire annual production of hogs in the State of Iowa. This loss in annual exports is equal to all the lard that thirty-six and one-half million people would eat, at the high United States per capita consumption rate, and equal to all the pork that nearly twelve million people would eat in a whole year.

The prospect for exports of hog products to our big customers in Europe, Germany, and England now is about as bad as it has ever been. As some of you know, the British empire went off its traditional free trade basis in 1931 and

began to restrict the imports of certain products from non-empire countries by means of quotas which limit the volume admitted into the country, regardless of price. These quotas in the British market have been changed from time to time, and it now appears that the amount of cured pork to be imported from the United States into the British market in 1934 will be somewhat less than in 1933.

In Germany, the government is attempting to achieve self-sufficiency with respect to supplies of fat; the import duty on lard has been greatly increased since early 1933. This duty now stands at the extraordinarily high figure of about eighteen cents a pound. In addition, Germany has lately imposed import quotas on lard limiting the monthly imports during 1934 to forty percent of the imports during the corresponding months of 1931-33. At the same time, hog numbers in Germany are increasing.

The tariff bargaining powers granted President Roosevelt by the last Congress contain important potentialities for the American hog producer, but it seems doubtful at this time whether significant changes in the international picture can be expected during the next year or so. It takes considerable time to effect mutually satisfactory tariff negotiations. Until there is a sound expansion in export outlets, the Corn-Belt farmers cannot afford to do other than make these present adjustments.

As I have already mentioned, it is not easy to keep an accurate sense of proportion on all these matters. I recall distinctly how the great dust storm of a few weeks ago dramatized the searing effects of the drought in a very effective way. In the cities, one began to hear talk of a national food shortage. But people were talking from emotional reaction rather than from facts. It took a great deal of prompt information to convince the alarmed ones that we had adequate reserves and that even though certain areas were extremely dry, a good-sized crop still would be raised.

Of course, the farm adjustment program came in for its share of vigorous criticism. Presently, many new problems did develop, which called for numerous modifications of our original corn-hog contract. Certain provisions were relaxed in order that farmers in the dry areas might conserve as much of the limited soil water as possible by additional planting of feed crops. As these modifications were authorized, people not in sympathy with the efforts of farm people to contro production shouted that economic planning had definitely failed. On the contrary agricultural planning that is to amount to anything must have flexibility to meet unpredictable conditions. In the main, we can expect that the objectives of the corn-hog program will be realized this year and that the people of the United States will have plenty of corn and hogs to eat.

The occurrence of the drought, of course, should stimulate some serious thinking about the desirability of carrying surpluses from year to year so as to maintain a safe margin of supply without going so far as to produce a price-depressing surplus. Finally, the drought rather unexpectedly and effectively demonstrated the crop insurance feature of the corn-hog program. Because the reduction payments are based on past production averages instead of on current production, many farmers, especially in the drought-stricken Dakotas, will receive twice or even three times more money than they otherwise would have realized solely from the sale of the drought-reduced crop.

In saying all these things, I am keeping in mind a rather common opinion that we can expect increased pork and lard consumption through reemployment and higher wages in this country. I have already cited evidence that the per capita rate of consumption has not declined during the depression. This does not say, however, that there may not have been some shifting in rates of consumption among various groups, just as there probably will be shifting in rates of consumption of various commodities as recovery advances. It is our conviction from past experience and from available statistics, however, that any gains in pork and lard consumption among people with relatively low incomes will tend to be offset by increasing expenditures among higher-salaried people for certain other foods. Also, the potentiality for increased pork and lard consumption among the unemployed seems less significant than formerly, because Federal and State relief agencies have been supplying them right along with a substantial volume of hog products, part of which resulted from the emergency slaughter program last fall.

No, the unemployed problem of this country will not be solved by our going back to the policy of uncontrolled excess agricultural production. The problem is not that simple. The most important characteristic of the business depression has been the marked decrease in production of industrial goods in contrast to a stable or increasing level of agricultural production. Thus, while we in the country now must adjust production downward to some extent to help restore national economic balance, the problem in the cities is to increase -- that is, restore normal production of goods and services, and in so doing to re-establish workers in worthwhile occupations at equitable wages. When this is done, the urban portion of our great consuming group will have more manufactured goods to trade to country people for foodstuffs and fiber. As national production of wealth enlarges through increasing employment, so can we expect that the goods and services equivalent of farmers' income will increase. This improvement can be expected to take place without the farmers' increasing production one whit excepting as more agricultural commodities actually may be needed.

One of the highly significant things about our economic system is the very close relationship between the incomes of city workers and level of farm prices. Thus, the criticism against our efforts to adjust farm production comes with particularly poor grace from those elements who profess an interest in the welfar of city workers but who also oppose plans to raise incomes and stimulate employment. To a much greater extent than is generally realized, the objectives of the farm program and the other programs of the Administration are in harmony rather than in opposition, and the maximum benefit to Corn-Belt agriculture can be said to depend almost as heavily on the success of these other programs as on the Agricultural Adjustment Act itself. Whatever may be the eventual possibilities for increasing consumption of pork and lard among city dwellers, remember this: Under the New Deal, we have a real chance to find out; under the Old Deal, we probably never would have had that chance.

It is yet too early to measure the effect of the corn-hog program on farm income. Much of the benefits of the adjustment we are now making will not become apparent until the 1935 marketing season. Even a large part of the 1934 spring pig crop will not go to market until after this coming December.

Just the same, I am sure that all of us have been gratified to see the hog market showing much greater strength during these past two weeks. The remarkable jump of $1 per hundredweight in less than ten days' time was due primarily to a decline in receipts from the comparatively high level which prevailed during May and to the supporting influence of Government purchases for relief purposes.

Just as an excess of a commodity will depress prices out of all proportion to its volume, a moderate reduction will often stimulate a phenomenal rise. If drought conditions and the prospect for a shortage of feeds in some areas had not greatly increased marketings of hogs during May and early June, it seems probable that the current rise in prices would have begun sooner and would have been more gradual. As it turned out, the fall pigs were rushed to market at a comparatively light weight a month ago, thereby cutting down the number which otherwise would have been marketed at this time and later in the summer.

In spite of the comparatively low level of prices which prevailed during May, however, the hog market was in a stronger position than during the same month a year previous. When the price equivalent of the hog reduction payments is taken into consideration - as it properly should be - we note that not only have hogs been in a stronger position than a year earlier, but they have also been in a favorable position with respect to cattle.

You have heard a great deal out here, I assume, about the supposed better condition of the cattle market. Of course, at the same time, you were undoubtedly told that the processing tax - the means by which we raise reduction money - was all to blame.

Now here are some figures: The total live weight of cattle slaughtered under Federal inspection from January to June this year was approximately 3,747,000,000 pounds, or about twenty-four percent larger than the Federal slaughter of cattle last year. Packers paid approximately thirty-eight percent more in total dollars for cattle this year, but an average of only 11.5 percent more per hundredweight of animals killed. I am talking now about average cattle prices rather than the current high prices for the relatively short supplies of quality steers. On the other hand, the total hog slaughter under Federal inspection from January through May this year was 5.6 percent less than for the corresponding period a year ago. But including the amount paid as processing taxes into the fund, out of which cooperating producers will receive their benefit payments, the hogs this year cost the packers approximately 45 percent more than they did in the January-May period a year ago and the cost per hundredweight of live-hog bought was 53 percent higher.

Of course, the gradual increase in the rate of the processing tax being collected tended to obscure the increase in the value of hogs per hundredweight earlier in the year. The value increase until recently had been reflected in the higher rate of the tax rather than ~~in~~ a corresponding increase in the open market price of hogs, but with the tax rate more or less established at $2.25 per hundredweight, any change in the value of live hogs from now on will be reflected in proportionate changes in the open market price of hogs.

I am hoping that it soon will become the custom among farmers to figure their hogs as being composed of two parts - one part coming at the time of sale at the open market price; the other part coming as reduction payments. I think that figuring income this way will help all of us to understand the processing tax. I get a great many letters on the tax and a large number of writers, some of whom are contract signers, declare that the tax should be substantially reduced, if not removed entirely. I am afraid they miss the whole point of the processing tax and the reduction payment.

The tax and the payment which it makes possible really protect the interests of the cooperating farmer, because they constitute an effective differential per hundredweight of hog produced between what the cooperator gets and what the non-cooperator gets. If we adjusted production under a simple plan which did not involve the tax payment differential, I suppose the value of hogs would rise substantially, and farmers as a group might be almost as well off under that plan as under any other. But the individual taking part would not be so well off. Without the processing tax device to preserve for him a fair share of the increase in the value of hogs, as determined by the play of supply and demand in the retail market, the cooperating producer would see the benefits from his efforts diffused to all producers.

I suppose another story that has been making the rounds out this way is the one about Canadian hog prices. Several people have written me about this, wishing to know why there was a larger-than-usual differential between hog prices at Chicago and at Toronto, Canada, during the past winter. It has been said that this differential was due to alleged depressing influences of the Administration corn-hog program. Let us review the real facts of that situation.

There was a larger-than-usual differential between hog prices in Canada and the United States during the past winter for several important reasons: In the first place, Canada has an unrestricted outlet in the British market for her exports of hams and bacon. At the Ottawa conference in 1932, Canada obtained a quota under the empire trade preference agreement equal to almost ten times her average export volume of recent years. In contrast, exports from the United States have been substantially curtailed by the British quotas. Secondly, because she could increase her hog products to England in 1933, Canada was able to take greater advantage of the rise in wholesale prok prices in England, as imports were restricted from non-empire countries.

Finally, the differential between Canadian and American hog prices was exaggerated by the collection of a processing tax on hogs in the United States. When allowance is made for the price equivalent of the processing tax, the net differential between hog prices in the two countries is nominal. In recent months, too, Canadian hog prices have been working down from their relatively high late-winter level and hog prices here in the United States have been working upward. It stands to reason, of course, that with a large unrestricted outlet open for Canadian farmers, the hog business in Canada will continue to be on a relatively better basis than the hog business in the United States until we have succeeded in fully establishing a better balance between supply and the changed demand.

Corn-Belt farmers are now making the most severe adjustment that this generation is likely to be called upon ever to make. The way thus far has been hard, because it has been all new. We have had no precedent either for procedure or administrative personnel upon which to draw. Many farmers did not have detailed records of past production. The work of making final adjustments, in order to assure that we attain our reduction objective and apportion to each producer his fair share of payments, has taken much time. There have been some local irritations and misunderstandings. Much as we desired otherwise, it has been necessary to make rather definite and somewhat detailed rulings with respect to non-basic crops.

In spite of first-year adversities, however, we have been going steadily forward. Much of the ground we have covered will never need to be covered again. We have shown ourselves that farmers can get together and manage their own business. A group consciousness has been developing, which will make it easier for agriculture to cope with its problems in the future.

Henceforth, I am hoping that all of you will continue to think seriously about the fundamentals of agricultural adjustment. I hope you will be thinking about ways to simplify and make more flexible the adjustment plans and yet keep to the necessary objectives. I hope you will view with a more and more critical eye the loud criticism of the New Deal which springs eternally from quarters not altogether friendly with the farmer. Finally, I hope you will maintain strong interest in your county control association. The associations give a solidarity to Corn-Belt agriculture that we have never known before. If we should do no more than weld our individual interests into a powerful group interest, we shall have done an epochal thing. And the more I see of the work of local committeemen in handling these difficult problems of contract adjustment, the more I am certain that this powerful group interest is gradually maturing and already beginning to mold the attitudes and reshape the destiny of agriculture in the Corn-Belt.

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COOPERATIVE ASPECTS OF THE CORN-HOG PROGRAM

by
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(Address given before United Farm Organizations, Mason City, Iowa, June 26.)

One of the interesting and inspiring things about the New Deal is the way in which the people, themselves, have been called upon to help shape policies and to assume responsibilities for the broad national program of reconstruction and recovery. Nowhere has this new mode in political and economic government been more apparent than in the case of agriculture. To a much greater degree than any of us ever thought possible, farmers today have practical opportunities for combining to improve their economic wellbeing in a rapidly changing world. And they are making a remarkably good beginning. I am thinking now of the hundreds of producer committees, particularly the corn-hog committees, which have been organized all over the country to carry out production control plans under the Agricultural Adjustment Act.

When the present Administration came into office in early 1933, we knew that around 40 million acres of this country were being planted to crops, for which, because of lost foreign markets, there is no longer an effective demand. A very large part of this tremendous surplus acreage -- probably nearly one-half of it -- was being planted to corn. The corn acreage, of course, was excessive, because the production of our main corn product -- hogs -- had become excessive with a decline in exports. Production adjustment not only had become a more or less desirable thing to avoid outright waste of land and farm labor; in view of the paralyzing effect of surplus on farm prices -- a surplus which had driven farm purchasing power far below its relatively favorable pre-war level -- production adjustment had become absolutely essential to the broad program of national recovery.

Because of the hard facts of the situation, it was comparatively easy to figure out in a general way how much adjustment American agriculture probably would have to undergo before reasonable balance between production and consumption would again be restored. The new farm bill passed by the Congress on May 12 last year, contained far more real fundamental machinery for dealing with the farm problem than any other piece of farm legislation in history, but it was not specific in two important particulars on account of the variation in particular commodity problems. It did not -- and obviously could not -- enumerate exactly what percentage of reductions should be established as an objective with each

commodity nor set up a definite system for administering each program. Those were tasks which the Congress left to the Secretary of Agriculture and the people. Thus, we were given the lumber but neither blueprint nor tools. In fact, by comparison with the problems of administration which were to arise later, the development of a general plan was almost as simple as the process of subtracting two from four.

From the outset, however, we were guided by several acknowledged principles. First it was in the spirit of the Agricultural Adjustment Act that farmers themselves largely should have a hand both in the development and in the administration of any program found necessary. You will recall that Secretary Wallace has repeatedly made this point. Secondly, because of the emergency nature of the corn-hog problem, it was almost imperative that the large majority of producers share equitably in the reduction of corn acreage and hog numbers. Although it is one of the eventual supplements to more permanent adjustment, a program of land retirement could not be employed at the outset. Neither was it possible to deal in great detail with each farm, checking on rotations and determining the optimum scale of production for each farm. At the outset, it was either a plan involving a more or less definite flat percentage of reduction or no plan at all.

As it happens, it is just a little over a year ago now that the self-administrative set-up of the corn-hog program under the Agricultural Adjustment Act first began to assume form and a definite direction. I refer to the formation of the Iowa Corn-Hog Committee at Des Moines here in Iowa on June 16, 1933. Soon similar committees of producer representatives were organized in other corn-belt States. Delegates from these several State committees met in Des Moines last July 18 and made up the set of recommendations to the Agricultural Adjustment Administration which pointed up the discussion on a corn-hog production control program we have since put into effect.

It is not necessary for me to go on from here, giving in chronological order, the outcome of subsequent discussion between representatives of the producers and the Government. You know how we have advanced, step by step: First, the emergency marketing program; next the outlining of the 1934 plan; then the organization of temporary local committees, the contract sign-up, the general election of permanent committeemen and the establishment of county production control associations; and finally the follow-up work of the association officials and committeemen. You know where we are at the present time and I am sure you share with those of us in the Department of Agriculture a more realistic appreciation of our new responsibilities.

We have faced unusual adversity in this, our first year of voluntary production control. Sometimes it seemed as if our task could not have been made more difficult by deliberate design. There was the tremendous scope of this program. There was the lack of adequate and detailed production records among many farmers. There was the task of working out administrative rulings which would make the contract applicable to the thousands of individual situations among the million and more eligible producers. There were the rather complicated and often conflicting relationships between the production of corn and of hogs. There was unrest and dissatisfaction with the depressed condition of the hog market on account of heavy marketings at the time of the sign-up. There was the necessity for a careful checking of contracts and some adjustment of figures. And finally there was the problem of the drought.

I know of a good many people who had misgivings when we started out on this program. There were those, of course, who opposed production adjustment and who, in effect, said, "Let the farmer flounder in his surpluses until he has sense enough to cut down without governmental assistance." There were others who recognized the facts in our situation, and who endorsed the idea of production control, but who contended that the voluntary plan would fail because farmers could not work together.

Many of us here today have heard it since boyhood that the farmer is extremely individualistic and will never go with the crowd. In fact, some of us have been taught to go against the crowd in shaping our own production policies for a particular commodity. I am thinking particularly of the case of a farmer over in Illinois who invariably cut his production of hogs in the years when the neighbors were inclined to increase and who also as invariably increased his hog production after the neighbors had been burned by low prices and were cutting down on hogs.

Going against the crowd, however, is a rule that can be worked only by the minority and at best returns only a little better than the average income realized by the whole farming group. The point is that in the long run, individuals stand to gain more by combining with the crowd to manage in some degree the volume of the commodity that will be put on the market by the whole group. In that way, and that way only, will the interests of both the individual and the group be served.

In spite of popular sayings to the contrary and a long tradition of assumed independence of action among farmers, I am one of a number of people who have never been convinced by the statement that farmers won't work together. After watching the extraordinary activity and unanimity of purpose among farmers who are now putting over the corn-hog program, I am ready to declare that my faith has been substantiated by fact.

The reason, I suppose, why farmers haven't worked together before with more facility may be two-fold. The need for joint action to improve income and protect property from foreclosure was never as great nor as clearly defined as during the past several years. Of still greater importance, in my opinion, was the fact that no device existed heretofore for preserving for the participant in production control a full share of the economic benefits of the adjustment. You know the story of the tobacco cooperatives which succeeded in obtaining acreage reduction among their own members only to see the price increase resulting from this partial adjustment go to the producers who had the same or a larger production to offer for sale. You have heard of similar experience in the case of cotton in days gone by.

I raise the question: Who would voluntarily reduce his production under any kind of a plan, regardless of by whom sponsored, if that plan did not assure him of some part of the benefits to be derived from the adjustment? I don't think very many of you here today would go into that kind of plan. I will go further and say that nine out of ten farmers who signed the corn-hog contract would not have signed if they had not been assured of a fair and equitable share of the benefits from this adjustment. That is not to disparage the motives of contract signers. One of our needs is greater purchasing power and a plan which does not assure each producer of a fair share of return for his part in the adjustment plan simply is not worthy of support, individually or collectively.

The Agricultural Adjustment Act, as many of you appreciate, provides an effective device for preserving for participating producers their share of the benefits of production control programs. This device is the processing tax. I have always felt it was a little unfortunate that the word "tax" was attached to this method for setting aside at the processing point, for subsequent distribution to participating producers, a part of the value of the commodity, as determined primarily by the usual factors of supply and demand.

We know from past experience that within reasonable limits a reduction in supply not only will raise the price per hundredweight but tend to increase the total returns to producers. When you take the surplus off the market, the bids for the remainder of the commodity are sufficiently better to more than offset the reduction in volume sold. The processor does not have to count on handling or selling at a sacrifice the surplus of the commodity. There is less waste and less cost for transportation and distribution. And meanwhile, as long as supply is in line with requirements, consumers will tend to spend about the same percentage of their incomes for the finished product as before and with lower aggregate transportation and handling costs for the smaller supply, the total return to producers will necessarily be greater.

Thus, out of that comparatively stable percentage of their incomes that consumers tend to spend for the products, the producer selling a moderate volume of commodity is able to realize a larger percentage return than when he was producing and selling an extra volume or surplus of commodity.

So far as the usual play of supply and demand goes, the effect on price probably would be about the same by one method of production adjustment as by another. Bringing production into line with demand invariably will tend to raise both price and aggregate return from the commodity, so long as total output is not brought below reasonable requirements nor reduced so much as to greatly disturb normal price relationships with other similar commodities.

Under a plan, however, which did not involve benefit payments and a processing tax but which called for the same reduction as is provided for under the 1934 corn-hog contract, all of the benefit would be reflected solely in changes in the open market price of hogs and this price increase would be diffused more to individuals who did not adjust than to those who helped make the adjustment.

In contrast, net benefits from the 1934 corn-hog plan will not appear exclusively in the form of higher prices but in large degree will come to the participating producers in the form of reduction payments, distributed from funds derived from processing taxes. The potentialities of the tax for increasing producers income are two-fold. In the first place, the tax improves the position of hog producers as a group because, through the benefit payments it makes possible, it encourages producers to make an adjustment in supply that in reality is responsible for a large part of the increase in the commodity's total value. Secondly, as there is a tendency for the tax to increase the price of hog products in the retail market over what it otherwise would be, the amount which competing processors pay for hogs may tend to increase.

As I have already indicated, there has been plenty of hard work launching this program of planned production. This program was about as different from anything we had ever done before as breaking prairie is different from working a

piece of ground that has been well-farmed for fifty years. First, one of the difficult, but essential jobs was to establish a base from which to reduce. A decision to reduce corn acreage by twenty percent and hog production by 25 percent might have come to nothing at all if the figures put in the contracts had not been brought as near as possible to the actual production during the two-year period, finally selected as the base interval. The temporary committeemen, who started off this program, therefore rendered indispensable service by helping farmers with their contracts.

In many ways, the most severe test of all has been the adjusting of contract figures to conform with the quotas. The quotas, as you may know, were determined by state and federal officials, after careful examination of all available data, including producers' own reports. Because the sum of the contract signers' reports did not always check out with the quotas, some people, particularly some of the anti-Administration writers, seemed to get the idea that the majority of farmers were brazen liars and that they were not trying to play the game at all. As it happens, most of these errors were the consequence of a lack of detailed records. Also, the minority rather than the majority of contracts contained significant errors.

The purposes of making a careful adjustment, of course, were clear:

In order to make sure that the production adjustment would be real and adequate, it was essential that the basis for reduction -- the production data in contracts -- be as near the actual as possible; secondly, the adjustment further assured each participant that he would account for his fair share of the reduction in production, but no more, and that he would receive his fair share of the reduction payments, but no more.

Much of the ground gone over by committeemen and producers this past winter and spring should not have to be retraced again. By keeping accurate and reasonably detailed accounts henceforth, we can be prepared to furnish information on the status and size of our businesses at any time and for any kind of a program that we possibly develop and follow in the years ahead.

I think it is generally known by this time that nearly one million two hundred thousand farmers of this country signed the 1934 contract and that the corn-hog program is the largest of all the adjustment efforts. I wonder, though, if we fully appreciate the magnitude of this program. It looks now as if our corn acreage this year will be down by about 12 to 15 million acres under the two-year average. That represents an area almost one-half again as large as all of the land area devoted to corn in Iowa, the nation's leading corn State.

We can appreciate our job, too, by making a comparison with similar adjustment efforts in other countries. Denmark and the Netherlands also are engaged at this time in curtailing hog production in a rather drastic way. As with the United States, the partial closing of the British market for hog products from non-empire countries has enforced a very substantial adjustment of hog numbers by Danish and Dutch farmers. Under a system which controls the purchase of hogs for export, the Danes have discouraged the production of hogs in excess of the number that can still be profitably exported, plus the number required for domestic consumption. In the Netherlands, hog farmers receive a certain number of tags

to be inserted in the ears of the pigs. The owner cannot sell pigs which do not bear ear tags and a heavy fine is imposed for production of excess animals. In both countries, there is a sort of producers' control association which resembles the corn-hog production control association in this country.

Although the farmers of these two small European countries have been severely hit by the decline in exports, and although they have had to plan drastic curtailments of pig farrowings, their problem from the physical standpoint is far less than ours. They have fewer farmers and their combined farm land area does not equal the size of the State of Iowa. Denmark has only about 200,000 farmers and is fortified by about fifty years of rather intensive experience in cooperative production and marketing. In contrast, America has a total of about six million farmers and practically no experience in real cooperative production control. I mention these things, not as an apology for the unavoidable delay in clearing our contracts and disbursing the first installment of the reduction payment checks, but rather as a statement to help visualize the scope of the corn-hog program.

Looking beyond the immediate cooperative aspects of the plan this year, we perceive that community participation under the corn-hog contract may open new possibilities for cooperative marketing and distribution. Heretofore, many worthy cooperative endeavors went on the rocks because of uncontrolled production. No amount of efficiency or penny-pinching could stave off the disaster of declining prices caused by over-supply. Moreover, lack of a sense of the fundamental relationship between the welfare of the individual and of the group, has in the past been responsible for a shifting, unsettled cooperative membership. The notion has been expressed occasionally that the organization of farmers under the Agricultural Adjustment programs has superseded the function of marketing cooperatives. On the contrary, the production control plans plug up an extremely dangerous hole in the dike, which otherwise would constantly threaten any cooperative concerned with the production and distribution of commodities.

In the broad sense, the corn-hog program is only a part of the national recovery effort. Corn Belt farmers now are doing the things which only they, themselves, can and logically should do. In so doing, they are putting their own business on a firmer economic foundation. They are putting themselves in a position to receive higher prices and a larger share of the national income. A larger farm income has been one of our greatest national needs for the past several years It is realized that greater purchasing power in the country means the sale of more goods made by urban dwellers. On the other hand, it is recognized that larger incomes and more employment among city workers will mean a larger dollars-and-cents return to the farm for the commodities that are bought. In effect, as employment increases and wage payments reach a fair level with respect to the national wealth city workers have more to trade to the country for the foodstuffs and other raw materials. In the final analysis, of course, what we are after is not so much a certain price as it is the opportunity for steady work without wasting our labor on surpluses and to command a fair proportion of the output of goods and services in this country.

Finally, the welfare of the corn-hog farmer is almost inextricably woven into the destiny of world affairs. For a long time, we have been an exporter of agricultural commodities and products. During the world war, when much of the

European farming area went out of cultivation, our exports shot to extraordinarily high levels. After the war, as we might have expected, the nations of Central Europe began to restore their agriculture as rapidly as possible. Our export business would have felt the effects of this tendency much sooner if it had not been for liberal loans abroad up until about 1928. But exports founded on loans abroad are not sound and we soon found that out to our sorrow when the loans stopped.

A large part of the acuteness of our problem is due to the inexperienced attitude of the United States toward foreign debts. Instead of accepting goods or services which are the only real forms in which a nation can discharge an obligation, our tariffs were raised against foreign goods and we loaned money to the purchasers of our exportable goods. As Secretary Wallace has pointed out again and again, the impossible position of the United States as a new creditor nation and the sand-like foundation of our export business soon became apparent when the world-wide depression set in. Within a space of three years, trade restrictions against imports bristled all along the European frontiers. Corn-hog farmers of the United States took it on the nose when Germany tightened restrictions on lard imports and when England established the quota system for imports of pork from non-empire countries.

Within recent months, some overtures, looking toward a gradual reopening of foreign trade, have been made. American farmers have much at stake in this effort. If our exports remain where they are or decline still more, I do not see how we can avoid adhering rather religiously to some plan for keeping production in line, that is, if we are to realize the most from our crops. If, on the other hand, there is some improvement in foreign trade and the tariff schedules in this country are wisely revised, there is some chance for a partial re-expansion of production. At best, however, this will be a slow process. The outlook is not good in the case of hogs, because our predicament is due to more than a mere refusal abroad to buy our products. The fact is that European hog production, itself, has increased greatly since the war.

Whatever the problems ahead may be - whatever adjustments we are obliged to make during the next few years, I think we can risk the statement that the discipline being developed under the corn-hog program this year will prove to be an invaluable aid in the future. I think corn-hog committeemen everywhere and all others who aided them, including the extension people, are entitled to much praise for this pioneer effort.

The underlying strength of the voluntary system of production adjustment, it seems to me, lies in the unusual degree of self-restraint which it promotes within the individual. The voluntary system, with its network of local committees, meshes cleanly with the individual free spirit of the American farmer. It modifies the interest of the individual only to the extent necessary to promote the welfare of the group. There is the spirit of the game about all this adjustment work. Once a man elects to come in, he will stick by the rules. If he does not, he usually will be quickly brought into line by his own neighbors who do possess a sense of fair play.

Under any other system than the voluntary one, the restraining influence is not within the individual. It is external. If force is necessary to attain the objective of adjustment, the individual producer will develop a hatred for the system, even though the results obtained are substantial. If something should

happen to break the control over them, producers would have no group-consciousness of their own nor a sense of mutual responsibility to hold them together. Invariably, they would lapse into another period of every man for himself and the devil-take-the-hindmost. Eventually, the devil would take everybody, just as he was taking us off at a pretty rapid clip under Old Deal policies.

I hope that you will maintain the enthusiasm and energy which you have demonstrated throughout the early phases of this program. You have had a severe trial and there will be a tendency to let down after the first payments are distributed, but if you do that it will be a mistake. We cannot afford to scatter, yet many miles short of our ultimate goal.

Next up, of course, is the important task of checking on compliance with the 1934 contract. In some respects, this will be as trying as the adjustment of figures this past month. But if we are to realize desired reduction, hence the maximum benefit this year, we must do it; and if we are to see that everybody gets a square deal, it is necessary that real compliance be assured.

When the hurly-burly of the present work is past, those of us at the Administration headquarters in Washington hope to keep country associations posted regularly in the way of current information on markets, the export situation and on the progress of the corn-hog program and related programs. It is my own hope that you will have corn-hog meetings from time to time at which the fundamentals of the problem are seriously and thoroughly discussed. It is well to keep in mind that unless there is a virtually miraculous recovery in world trade over the next year, the 1934 corn-hog contract will not solve our difficulties for all time. It is just because of this probability that something will have to be devised to bridge us over, that I am urging continual discussion of the aspects, particularly the cooperative aspects, of this painful but inescapable era of adjustment.

Discussion Statement No. 7 July 4, 1934
Material suggested for use in developing discussion of problems of agricultural adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration,
Washington, D. C.

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DEVELOPMENTS IN A PROGRAM FOR TOBACCO GROWERS

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Address by J. B. Hutson, Chief of Tobacco Section, Agricultural Adjustment Administration, before Farmers Meeting At Chatham, Virginia, July 4, 1934.

I am very glad to meet with the tobacco farmers of Virginia and to join with you in this 4th of July celebration. Exactly 158 years ago, our forefathers signed the Declaration of Independence. It was a clean-cut and courageous announcement that from then on, the people of the thirteen original colonies were determined to be free and independent. What is more it was a clean-cut and courageous announcement that they were willing to assume the responsibility, through victory and defeat, for their own welfare and future destiny.

Much has happened since that time. This nation has had its ups and downs, but on the whole, as a nation, it has grown, developed and prospered. However, even in the more prosperous times, some groups have been more favored than other groups. During less prosperous periods, some groups have lived in plenty, while other groups have been able to eke out a bare existence

During the past few years, in particular, tobacco growers have been in the latter class, while those engaged in some other branches of the tobacco industry have been in the former. It is this situation that I want to talk with you about today.

It is unnecessary for me to review the conditions that have prevailed during the past few years on most farms on which tobacco is grown. Your income was reduced to a bare existence level. You could not buy and you could not pay. It has been our task under the provisions of the Agricultural Adjustment Act to aid you in bringing about an improvement in this situation. It is our task to aid you in bringing about further improvement. You have shown a willingness to cooperate in a more determined and united way than any group before you since the commercial production of tobacco was first begun in Virginia Colony over 300 years ago. During the past year more than 90 percent of all tobacco growers have agreed to cooperate with their neighbors in a joint attack on the problem. What is more, you have indicated that you were willing to assume personal responsibility for the success of the joint undertaking.

There is a reason for all this. During the decade from 1923 to 1932, you produced more and more and in this production you worked more and more. For this production and work you received less and less. At the same time that you were receiving less and less, there were other groups in the tobacco industry that were receiving more and more. The total income of 400,000 farm families for the tobacco crop grown in the United States decreased from$288,000,000 for the 1923 crop to $107,000,000 for the 1932 crop.

During the first part of this period, world consumption of United States tobacco increased. In 1923 it was 1,225,000,000 pounds. In 1929, it was 1,400,000,000 pounds. After 1929, consumption declined and in 1932 it was at the same figure as 10 years previously. There was a gradual shrinking in the part received by tobacco growers during this entire period, but during depression years the income of tobacco growers declined at a ruinously rapid rate. From $286,000,000 in 1929 to $212,000,000 in 1930, and then, unchecked and uncontrolled, to $131,000,000 in 1931 and $107,000,000 in 1932. During this 10 year period manufacturers'profits increased from $76,000,000 to $146,000,000 and even during the depression years, manufacturers' profits increased from $134,000,000 to $146,000,000.

To summarize, during the decade from 1923 to 1932, the income of tobacco growers was reduced almost two-thirds. The profits of manufacturers almost doubled.

Interpreting farmers' gross receipts in terms of the 400,000 farm families, whose major source of income is tobacco brings the true picture closer home. In 1923 the tobacco income per farm family was $720. The next few years it dropped below that figure, but by 1929 had advanced to the 1923 level.

From 1929 through 1932, the income per farm family from tobacco dropped from $720 to $250. These figures represent the gross income for the labor of all members of the family and returns on the investment in the farm and farm equipment. From this sum it was necessary to pay, or try to pay, for fertilizer, machinery, canvas, taxes, interest and all other items of expenses. In some cases it was necessary to pay for a part of the feed for work stock.

In 1923 tobacco growers received slightly over 12 cents of each dollar paid by consumers for tobacco products and manufacturers received about 5½ cents in the form of profits. In 1932, tobacco growers received only 4½ cents of the consumer's dollar, whereas tobacco manufacturers received more than 10 cents in the form of profits. In addition, manufacturers received salaries for their personal services and a return of more than 20 percent on invested capital. The salaries of 12 of these men in 1932 was $2,500,000, which was equal to approximately the total income received by 10,000 tobacco growers.

It was this situation that caused a Justice of the United States Supreme Court to say about a year ago, "A prime cause of our present plight has been the failure to distribute widely the profits of industry." It was this situation that has caused Secretary Wallace and Administrator Davis and many others to work night and day in the development of plans for the bringing about of a more equitable distribution of the national income. It was this situation that caused the development of plans that would enable farmers to maintain the same kind of control over their output as other groups in the industry are able to maintain. It was this situation that caused you to join wholeheartedly in a program for the bringing about of a more equitable distribution of the tobacco income.

Let us review briefly the developments of the past year; As the 1933 markets opened, prices were near the low levels that had prevailed during the two previous seasons. Tobacco farmers appealed to the Agricultural Adjustment Administration and pledged their full support behind a campaign to reduce the 1934 crop in return for reasonable prices for the 1933 crop. The story of the past history-making year, so familiar to all of us, is a marvelous tribute to the fighting spirit and cooperative effort of the tobacco growers of this country.

In an incredibly short time, more than 90 percent of all tobacco growers in the United States signed contracts to reduce the 1934 crop. They agreed to reduce the 1934 crop to around 1,000,000,000 pounds, a reduction of about 30 percent. Such a crop would be as much below the level of consumption as the 1933 crop was above that level. Marketing agreements were entered into with domestic manufacturers in which the prospective reduction for 1934 was capitalized on in terms of increased prices for the crop then being sold.

It is estimated that the income for the 1933 crop from sales on the markets was approximately $50,000,000 larger than it would have been, chiefly because of the cooperation of tobacco growers in agreeing to reduce their next year's crop. Growers received $179,000,000 for the 1933 crop from sales on the markets. In addition, farmers are receiving during the current marketing year approximately $28,000,000 in rental and benefit payments, making a total of $207,000,000. This is close to the total income that tobacco farmers received for their 1930 crop and is only slightly below the average for the last 10 years.

Flue-cured growers received an average of 9.5 cents a pound for the two crops grown in 1931 and 1932. In 1933, however, the Adjustment program helped boost this average to 15.3 cents a pound. Fire-cured growers, who received less than 5.5 cents a pound for the average of the 1931 and 1932 crops, secured an average of 8.1 cents a pound in 1933. Burley growers received an average of 10.3 cents a pound for the 1931 and 1932 crops. The 1933 crop was 40 percent above the level of consumption and the total supply 11 percent larger than in 1931 and 14 percent larger than in 1932. In spite of this burdensome surplus situation, the price was above the average of the two previous years. The average price for all types was 12.9 cents a pound in 1933, compared with less than 9 cents a pound for the two previous crops.

The increase in income to flue-cured tobacco farmers because of a "promise to reduce acreage" is amazing, almost unbelievable, but it actually happened as all of you know. It paid old debts, bought necessities and even luxuries, and brought new opportunities and new hope to farm people, who were pretty badly crushed and disheartened. Let's examine the record, comparing the income by States for flue-cured tobacco for the 1932 crop without a program, and for the 1933 crop with a program.

Flue-Cured Tobacco
Market Receipts to Farmers

State	1932 Crop	1933 Crop
Virginia	$ 2,580,000	$ 9,130,000
North Carolina	34,710,000	85,560,000
South Carolina	4,475,000	11,160,000
Georgia	1,255,000	6,540,000
Florida	140,000	450,000
Total	$ 43,160,000	$112,850,000

Flue-cured tobacco farmers also received benefit payments as follows:

Estimated Flue-Cured Benefit Payments

Virginia	$ 470,000
North Carolina	5,380,000
South Carolina	1,715,000
Georgia	1,390,000
Florida	85,000
Total	$9,040,000

Considerable portions of the payments to states other than Virginia are price-equalizing payments. It will be recalled that the 1933 crop in Virginia was sold after the price increase occurred, following the signing of the flue-cured marketing agreement. Prices in the Old Belt averaged 16.6 cents per pound compared with an average of 14.6 for the remainder of the flue-cured district. The price-equalizing payments were made to those growers who sold early, to equalize insofar as possible the advantages which were obtained from the adjustment program.

Certainly, flue-cured tobacco farmers of the Southeast are more cheerful. But what is the outlook for the 1934 marketing season?

With a 30 percent reduction and a 95 percent sign-up, the flue-cured tobacco planted under contract totals 672,000 acres. It is estimated that approximately 28,000 acres, not under contract, will be planted. This gives a total of 700,000 acres planted in 1934. Assuming slightly above normal yields, the 1934 production can be predicted at around 525 million pounds. This is about 215,000,000 pounds less than last year's crop.

Stocks on hand in the United States on July 1, 1934 appear to be about 800,000,000 pounds. Add to this the current 525,000,000 pounds crop and the total U. S. supply figures for flue-cured round out close to 1,325,000,000 pounds compared to 1,420,000,000 as the market opened last year. If there is anything in supply and demand relationships, prospects for flue-cured tobacco prices should be considerably brighter when the market opens this year, compared to a year ago.

Reasonable prices to growers in 1933, that normally might have been followed with about a 30 percent increase in acreage in 1934 and poverty prices, turned out just the opposite. By keeping their promise, and by maintaining control of their own production, tobacco farmers have removed the age-old objection of manufacturers to paying reasonable prices -- that of raising a crop all out of reason, following good prices. Now that this objection has been overcome under the new order, manufacturers should keep faith with tobacco farmers and pay increased prices for a smaller crop. Farmers, in turn, should continue to control production, so as to secure the highest possible net profit from their tobacco crops. They have this in their power and they have the vision and intelligence to keep this control.

The second step in controlled tobacco production is the Kerr-Smith Tobacco Act passed on the final day of the 73rd Congress. This Bill is the answer to the direct request of farmers, cooperating in adjustment programs, that they be protected from the non-cooperating minority. The overwhelming majority of cooperating tobacco farmers did not wish to see their efforts to reduce production in line with market needs offset to any appreciable extent by the non-cooperator, who increases his production, or the new grower who spreads the acreage and the territory. In addition, cooperating growers believed it was unfair for non-cooperators to "ride free" and enjoy benefits which were made possible by majority cooperation.

The main provision of this Act is the levying of a tax of from 25 to 33-1/3 percent of the sales value of the tobacco of non-contract signers, beginning with the 1934 crop. Maryland, Virginia Sun-Cured, and cigar-leaf tobacco are exempt from the Act in 1934. At the request of three-fourths of the growers, any type may be brought under the Act in 1935.

Tobacco growers emphasized that the effect of the new Act is to equalize conditions to all tobacco growers and not to compel or prohibit any farmer from growing tobacco. Neither is it intended to force any tobacco grower to sign a contract. Growers participating in the production adjustment programs agreed to reduce production approximately 30 percent. This was followed by a 30 percent price rise for the 1933 crop. Growers planting their normal acreage or increasing it will receive just as much for their tobacco, after they have paid the tax, as they would without the tax, had no reduction program been offered.

Small growers and other growers, who through unfavorable situations of some kind, have been unable to establish satisfactory bases, and have not signed up, may be taken care of under this Act. The Secretary of Agriculture is authorized to allot tax-payment warrants to non-signers up to 6 percent of the tobacco in each county of the total allotment of contracting producers. Two-thirds of these warrants to non-signers must be to small growers whose allotments of warrants are for 1,500 pounds or less. Included in the eligible group for tax-exempt warrants will also be farmers who lost their farms during the depression period and have recently reclaimed them; tenant farmers displaced on farms covered by tobacco contracts, who have been unable to obtain a place on farms covered by contracts; and those tobacco growers of long experience, who have recently acquired farms with no recent tobacco history. Every effort will be made to humanize the program and to give a fair chance to deserving individuals.

In each crop year in which the tax is levied, non-transferable tax-payment warrants will be issued to every tobacco grower cooperating in production adjustment programs. These warrants will cover the number of pounds of tobacco which each cooperating farmer is permitted to market under his reduction agreement. These warrants will be accepted as payment of the tax on the sale of his tobacco.

In fairness to all tobacco growers, the Act provides that a new opportunity be offered for signing contracts, to avoid payment of this tax. Adjustment contracts will be available for growers to sign through July 28. During this same period, non-contracting growers will be given an opportunity to make applications for tax-payment warrants. It will not be necessary for producers under contracts to make application for these warrants. The warrants will be issued to these growers at the time they market their tobacco, up to the full amount which they are permitted to sell.

The Kerr-Smith Tobacco Act is a protective, not a prohibitory nor a compulsory measure. Its real purpose is to protect growers cooperating for the general good of the industry and to guarantee that the benefits of this cooperative undertaking shall go in the fullest measure to the cooperators.

Some who are inclined to be critical have said that the bringing about of improved prices to tobacco growers will cause a loss in consumption. All along we have tried to develop our programs in such a way and to make such adjustments in them as would prevent any results of this kind. Only a few weeks ago, when it appeared that the crop might be short in some parts of the flue-cured belt, we announced that growers might increase their plantings. They were allowed to plant 80 percent of their base acreage instead of the 70 percent originally allotted. In order to equalize the opportunities as between the different growers, provision was made for the reduction of the payments to those farmers who planted the larger acreage.

At the same time, the announcement was made that all growers would be given an opportunity to sell 80 percent of their base poundage instead of the 70 percent originally allotted. There are some growers in every community who will produce more than the poundage originally allotted. After carefully considering the question, it appeared advisable to permit such growers to increase their sales provided they are willing to accept smaller adjustment payments. In the end, this will mean that the grower who is favored by weather conditions will produce and sell a larger crop, for which he will receive more on the market than his neighbor who is less favorably situated. But if he sells more, he will receive smaller adjustment payments. The contract already provides that the growers who produce less than their allotment will receive deficiency payments. The net result of these two provisions is that the growers who plant or sell the larger quantity of tobacco will receive about enough for the added production to pay them at a reasonable rate for the extra work required.

The program is flexible enough so that adjustments such as those indicated above can be made and with these adjustments a marked increase in the income of tobacco growers can be brought about without any material loss in consumption.

During the depression period, when tobacco growers were receiving less each succeeding year, manufacturers, in order to increase their profits, advanced prices. In June 1931 they advanced the price of cigarettes to \$6.85 per thousand wholesale, and 15 cents per package retail. At the time, prices of practically all other commodities were being reduced. A marked drop in cigarette consumption followed. Millions of consumers turned to hand-made cigarettes and pipes and many others reduced their consumption. During the last half of that year, the consumption of manufactured cigarettes was 10 percent smaller than during the first half. This advance from \$6.40 to \$6.85 in the wholesale price of cigarettes was roughly equivalent to 15 cents per pound on the leaf tobacco contained in one thousand cigarettes. It has been claimed that this advance was made so that tobacco growers could be paid more for their tobacco. But instead of advancing in 1931, growers' prices declined to the lowest level in more than a quarter of a century. Also the reduced consumption resulted in an accumulation of surplus stocks of tobacco.

In order to reduce surplus stocks, the Agricultural Adjustment Administration found it necessary to ask growers to reduce production below the level of consumption. The enormous immediate task of doing this has overshadowed almost everything else during the past year. But, as a matter of fact, we are a great deal more interested in increasing consumption than in reducing production. Every opportunity has been seized to regain recently lost export trade. Some progress has been made in this field and now, with the approval of tariff legislation, vigorous efforts will be made for further gains.

An attempt was made during the recent session of Congress to obtain a reduction in tobacco taxes. We are greatly concerned that the rates of internal revenue taxes be such as to result in the largest possible domestic consumption and a healthy competitive situation in the industry. Our interest in tax rates is to be certain that the growers share in any reduction, and that any changes adopted will bring about a stable and permanent improvement in the growers' income.

Two proposals were widely discussed before the Congress. One would entail a 40 percent horizontal reduction in the tax rates on all tobacco products and the other would reduce the tax rates on 10 cent cigarettes on a percentage basis. The first would result in some further immediate increase in consumption and the second would improve the competitive situation in the industry, both of which are desirable.

Since no legislation was enacted at the past session of Congress, it is our hope that during the interim between now and the next session, this matter of tax reduction will be widely discussed and thoroughly debated. It is to the interest of the tobacco growers that a tobacco tax system be worked out which will not permit manufacturers to absorb all the profits made in the industry. We hope that it will be possible to develop a plan upon which all can unite that will insure maximum benefit to tobacco growers and that will not reduce the competition within the industry.

These are some of the developments that have taken place in the tobacco industry during the past year. Tobacco farmers have played a leading role in these developments. You will be expected to assume an even greater responsibility as the program continues to advance. After all, the tobacco program is being developed for tobacco growers and in a large part by the tobacco growers.

Great progress has been made during the past year but much remains to be done. We must complete our task and write our record in history in keeping with that of our forefathers. The restoration of the purchasing power of tobacco growers and other farmers is the foundation of the national recovery program and is essential to the preservation of our American civilization.

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